



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the **3rd day of December, 2002**

Essential Air Service at

ALLIANCE AND CHADRON, NEBRASKA

under 49 U.S.C. 41731 *et seq.*

Served: December 6, 2002

Docket OST-2000-8322

**ORDER SELECTING CARRIER
AND SETTING FINAL RATE**

Summary

By this order, the Department is selecting Great Lakes Aviation, Ltd., to provide essential air service at Alliance and Chadron, Nebraska, for a two-year period at an annual subsidy rate of \$1,084,825.

Background

Great Lakes Aviation, Ltd., has provided subsidized essential air service at Alliance and Chadron for a number of years. By Order 2002-4-10, the Department tentatively reselected Great Lakes to serve the two communities for the period of June 1, 2002, through November 30, 2003, for an annual subsidy rate of \$1,943,839. Under the terms of that order, Great Lakes was to provide three round trips each weekday and weekend to Denver with 19-seat Beech 1900. Order 2002-4-10 also provided that other interested applicants might submit competing service/subsidy proposals to serve Alliance and Chadron. In response, Mesa Air Group submitted a proposal for its subsidiary, Air Midwest. Great Lakes also responded to Order 2002-4-10 by submitting an alternative proposal.

Summary of Air Carrier Proposals

Mesa/Air Midwest submitted two proposal options:

(1) Three round trips each weekday and each weekend with 19-passenger Beech 1900 aircraft (one round trip over the routing Chadron-Alliance-Denver, one round-robin flight over the routing Denver-Alliance-Chadron-Denver, and one round-robin flight over the routing Denver-Chadron-Alliance-Denver) for an annual subsidy rate of \$1,625,819; and

(2) Two round trips each weekday and each weekend with 19-passenger Beech 1900 aircraft (one round trip over the routing Chadron-Alliance-Denver and one round-robin flight over the routing Denver-Alliance-Chadron-Denver) for an annual subsidy rate of \$1,091,648.

Great Lakes submitted two proposal options:

(1) Three round trips each weekday and each weekend with 19-passenger Beech 1900 aircraft over the carrier's current service pattern (one round trip over the routing Chadron-Alliance-Denver, one round-robin flight over the routing Denver-Chadron-Alliance-Denver, and one round-robin flight over the routing Denver-Alliance-Chadron-Denver) for an annual subsidy rate of \$1,715,081; and

(2) Two round trips each weekday and each weekend with 19-passenger Beech 1900 aircraft (one round trip over the routing Chadron-Alliance-Denver, and one round-robin flight over the routing Denver-Chadron-Alliance-Denver) for an annual subsidy rate of \$1,084,825.

Community Comments

By letters dated, October 18, 2002, we advised the Mayors and Airport Managers of Alliance and Chadron and the Director, Nebraska Department of Aeronautics, of the results of our negotiations and sought comments on carrier selection from these officials.

By letter dated October 25, 2002, the Mayor of Alliance expressed his community's support for the three-round-trip option of Mesa/Air Midwest.

By letter dated October 28, 2002, the Chairman of the Alliance Airport Authority indicated that body's support for the three-round-trip option of Mesa/Air Midwest. (The Alliance Airport Authority had also expressed support for Mesa in an earlier letter dated July 30, 2002.)

By letter dated November 5, 2002, the City Manager of Chadron advised us that the Chadron City Council supported the three-round-trip option of Great Lakes.

Selection Decision

In this case, the carriers are so closely matched that the selection decision is singularly difficult. In addition to ensuring that the general service requirements of 49 U.S.C. 41732 are met (they are, by both applicants), we are directed by 49 U.S.C. 41733(c)(1) to consider four factors in selecting carriers to provide subsidized essential air service in cases such as this: (1) the demonstrated reliability of the applicant in providing scheduled air service; (2) the contractual and marketing arrangements the applicant has made with a larger carrier to ensure service beyond the hub airport; (3) the interline arrangements that the applicant has made with a larger carrier to allow passengers and cargo of the applicant at the hub airport to be transported by the larger carrier through one reservation, ticket, and baggage check-in; and (4) the preferences of

the actual and potential users of air transportation at the eligible place, giving substantial weight to the views of the elected officials representing the users. Although not required by statute, we have given weight to the relative subsidy requirements since the inception of the program in 1978.

Considering each of these factors in turn, we find that: (1) Both applicants have substantial experience and have demonstrated comparable reliability in providing scheduled air service; (2) Great Lakes Aviation has code-sharing arrangements with both United Air Lines and Frontier Airlines at Denver, while Air Midwest does not currently code-share with a major carrier at Denver; (3) both carriers are known to have interline arrangements with other carriers; and (4) as noted above, the communities are split in their preferences for their choice of carrier, with Alliance supporting Mesa/Air Midwest, while Chadron favors Great Lakes Aviation.

Further complicating our decision process is the fact that, although the communities have consistently supported and used the subsidized essential air service that has been provided, the traffic levels that have been reported simply do not warrant continued Federal support of three-round-trip service. (The traffic data summarized in Order 2002-4-10, Appendix D, are repeated in this order in Appendix A, updated through calendar year 2001.) The data show that even in the peak year of 1998, both communities combined generated only 12.4 average daily enplanements. This equates to only a 21.8 percent load factor on the historical three-round-trip service, meaning that an average of only about four seats (out of 19 available seats) were occupied during each flight. This ridership clearly is not sufficient to justify three subsidized round trips; hence, we will select one of the two-round-trip proposals.

The subsidy difference between the two applicants' two-round-trip proposals is not sufficiently wide to be material. As noted above, Great Lakes Aviation seeks \$1,084,825 annually, while Air Midwest seeks \$1,091,648—a difference of only \$6,823, or less than a one-percent annual subsidy savings. As we see it, the principal element distinguishing these proposals is that Great Lakes Aviation has code-share arrangements in place with both United Air Lines and Frontier Airlines, which enhances the service to connecting passengers for service beyond the hub. We recognize that Mesa Airlines, also a subsidiary of Mesa Air Group, does have a code-share agreement with Frontier Airlines for regional jet service; however, Air Midwest has no such agreement in place. Accordingly, on the strength of this statutorily-mandated criterion, we will select Great Lakes Aviation to provide two round trips each weekday and each weekend between Alliance and Chadron and the Denver hub for a subsidy rate of \$1,084,825 annually.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service before we may subsidize it to provide essential air service. We last reviewed Great Lakes Aviation's fitness in Order 2002-9-1, September 3, 2002, in accordance with its selection to provide subsidized essential air service at Dickinson, North Dakota. The Department has routinely monitored the carrier's continuing fitness and, based on our review of its most recent submissions, we find that Great Lakes Aviation continues to have available adequate financial and managerial resources to establish and maintain quality service at Alliance and Chadron. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with FAA regulations, and knows of no reason that we should not find that Great Lakes Aviation remains fit.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY

1. The Department selects Great Lakes Aviation, Ltd. , to provide essential air service at Alliance and Chadron, Nebraska, as described in Appendix B, for the two-year period beginning when the carrier commences service, or 60 days after the service date of this order, whichever occurs sooner;
2. The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., for the provision of essential air service at Alliance and Chadron, Nebraska, as described in Appendix B, for the two-year period beginning when the carrier commences service, payable as follows: For each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth by Appendix B and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$452.77;¹
3. The Department directs Great Lakes Aviation, Ltd., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
4. Docket OST-2000-8322 will remain open until further Department order; and
5. We will serve a copy of this order on the Mayors of Alliance and Chadron, Nebraska, the Airport Managers of the Alliance and Chadron Municipal Airports, the Governor of

¹ See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

Nebraska, the Nebraska Department of Aeronautics, Mesa Air Group, and Great Lakes Aviation, Ltd.

By:

Read C. Van de Water
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov/>*

Historical Traffic Data at Alliance and Chadron, Nebraska¹

<u>Year</u>	<u>Alliance</u>		<u>Chadron</u>		<u>Combined</u>	
	Average Annual	Average Daily	Average Annual	Average Daily	Average Annual	Average Daily
	<u>Enplanements²</u>	<u>Enplanements³</u>	<u>Enplanements</u>	<u>Enplanements</u>	<u>Enplanements</u>	<u>Enplanements</u>
1987	751	2.4	632	2.0	1,383	4.4
1988	760	2.4	577	1.8	1,337	4.3
1989	736	2.4	654	2.1	1,390	4.4
1990	724	2.3	744	2.4	1,468	4.7
1991	581	1.8	765	2.4	1,346	4.3
1992	952	3.0	800	2.5	1,752	5.6
1993	818	2.6	790	2.5	1,608	5.1
1994	802	2.6	784	2.5	1,586	5.1
1995	534	1.7	644	2.1	1,178	3.8
1996	586	1.9	463	1.5	1,049	3.3
1997	1,038	3.8	1,236	4.5	2,274	8.3
1998	1,875	6.0	1,991	6.4	3,866	12.4
1999	1,783	5.7	1,693	5.4	3,476	11.1
2000	1,350	4.3	2,038	6.5	3,388	10.8
2001	692	2.2	1,324	4.2	2,016	6.4

¹ Source: Origin-destination passenger data reported on the D.O.T., R.S.P.A. and B.T.S. Form 298-C, Schedule T-1, by GP Express and Great Lakes Aviation.

² Total origin-destination passengers (in both directions) divided by two.

³ Average annual enplanements divided by 313 annual service days (314 in leap years). There was a service hiatus at both communities from May 16, 1997, through July 1, 1997; consequently, the 1997 daily averages are based on 273 annual service days.

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Alliance and Chadron, Nebraska
Summary Of Service To Be Provided —12 Nonstop Round Trips Per Week To Denver

Effective period: Date of inauguration of service, or 60 days after the service date of this order, whichever occurs sooner, through the end of the 24th month thereafter.

Intermediate stops and upline service: Flights between Chadron and Denver may stop at Alliance. Flights between Alliance and Denver may stop at Chadron. No other upline or intermediate service is permitted without prior Department approval.

Service: Two round trips each weekday and weekend to Denver.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,084,825
(This rate assumes an annual completion factor of 95.66 percent.)

Subsidy rate: Per year: \$1,084,825
Per flight: \$452.77¹

Weekly compensation ceiling:² \$21,732.96³

¹ Annual compensation of \$1,084,825, divided by two, divided by the estimated number of annual completed flights for each community at 95.66 percent completion (1,198).

² Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

³ The subsidy rate per flight (\$452.77) multiplied by the number of scheduled subsidy-eligible flights per week (48).

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Alliance and Chadron, Nebraska
Summary Of Service To Be Provided —12 Nonstop Round Trips Per Week To Denver

NOTE: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirement at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Great Lakes Aviation, Ltd.
 Provision of Essential Air Service at Alliance and Chadron, Nebraska
Calculation of Compensation Requirement

STATISTICS					
Completion factor				0.9566	
Passengers				3,135	
Block Hours				1,467	
Departures				1,796	
Miles flown				273,666	
Available Seat Miles				5,199,655	
Revenue Passenger Miles				717,915	
REVENUE					
	<u>City - Pair</u>	<u>Miles</u>	<u>Passengers</u>	<u>Fare</u>	<u>Revenue</u>
	CDR-DEN	229	1,650	\$89.00	\$146,850
	AIA-DEN	229	1,485	\$87.00	129,195
Freight		0.62% total Rev			1,711
Totals			<u>3,135</u>		<u>\$277,756</u>
EXPENSES:					
DIRECT					
			<u>Units</u>	<u>Rate</u>	<u>Total Expense</u>
Aircraft Expense / hourly			1,467	\$120.00	\$176,040
Aircraft Hull Insurance / hourly			1,467	\$12.29	18,025
Flight Ops - Block Hour			1,467	\$110.78	162,514
MTX - Block Hour			1,467	\$80.92	118,709
MTX - Departure			1,796	\$90.10	161,819
Fuel - GAL			194,512	\$0.9358	182,025
Direct Total					<u>\$819,134</u>
INDIRECT					
Passenger - PAX			3,135	\$5.48	\$17,180
WRI Liab - PAX			3,135	\$1.25	3,919
Liability - RPM			717,915	\$0.0079	5,672
G&A - ASM			5,199,655	\$0.0208	108,153
Local Marketing			1	\$10,000.00	10,000
HUB - DPT	DEN		599	\$296.32	177,495
AIA Station - MONTH			12	\$5,777.00	69,324
CDR Station - MONTH			12	\$7,235.00	86,820
Indirect Total					<u>\$478,562</u>
Total Expense					<u>\$1,297,697</u>
Total Revenue					\$277,756
Total Expense					\$1,297,697
Profit (LOSS)					-\$1,019,940
Total Expense - Revenue					\$1,019,940
5.00% Profit (of total expense)					\$64,885
Annual Subsidy Required					<u>\$1,084,825</u>